Statement of Senator Tim Johnson
Senate Committee on Banking, Housing and Urban Affairs
"The State of the United States Economy and Financial Markets"
February 14, 2008

Chairman Dodd, thank you for holding today's hearing on the current state of the U.S. economy and financial markets. I also want to thank today's witnesses; I look forward to your testimony. This is an important and timely hearing.

Each day we find mostly unwelcome messages about the state of the economy. On Monday, the White House optimistically predicted that the economy will continue to expand, but at a slower rate; yet some analysts contend that we are already in a recession; others believe the worse is yet to come in the housing market and home prices could fall an additional 25% this year.

Credit for non-prime borrowers is nearly shut down, home-equity loans and lines of credit are limited, jumbo mortgage rates are high, and nearly a third of planned home sales were canceled or delayed in the last quarter of the year because of loan problems.

The only mortgages being securitized successfully are the ones bought by Fannie Mae and Freddie Mac which accounted for about 87% of mortgage securitizations in December, and Fannie and Freddie continue to tighten standards and raise fees. Banks and commercial firms continue to report record losses and write-offs, and foreign countries continue to buy up that debt.

We are seeing further concerns regarding the role of credit rating agencies in the subprime mortgage crisis. And now, there are significant troubles in the bond insurance market. As the number of mortgage defaults increase, rating agencies have become worried that bonds backed by troubled loans could also default, triggering payments from bond insurers and threatening the bond insurers' credit ratings. If bond insurers are downgraded, the rating of the bond it insures drops, causing the value of the bond to fall. This could create even further problems for the economy. Additionally, I have serious concerns about how well-equipped the state regulatory system for bond insurance is to deal with the national and international implications of the weaknesses in this market.

It is my hope that the $168 billion economic stimulus package that the President signed into law yesterday will provide some relief to these looming economic concerns. While obviously not a permanent fix for economic trouble, I hope the stimulus will go a long way toward reversing recent downturns.

The Federal Reserve rate cuts, tax rebates, small business tax incentives and recent HOPE Now changes to freeze certain foreclosures and broaden outreach effort to delinquent subprime borrowers are necessary emergency measures, but it is also important that we work to protect the economic security of Americans by looking for long-term solutions. Creating an environment that fosters good paying jobs, investing in the public good, emphasizing entrepreneurship, addressing the costs of healthcare and energy prices, and protecting Americans pocketbooks by promoting financial literacy all come to my mind. I hope that the panelists today can offer some ideas on how we can stabilize the economy and financial markets in the short-term and long-term.